



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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DATE: December 12, 2007

TO: Legislative Finance Committee

FROM: Jim Standaert, Senior Fiscal Analyst

RE: SJR 31 and HB 488 – Revenue and Transportation Interim Committee

The Revenue and Transportation Interim Committee (RTIC) has met 3 times during 2007 under the chairmanship of Senator Jim Peterson. The RTIC has been charged with conducting two studies – SJR 31 and HB 488. Two subcommittees have been formed to work on these proposals.

The SJR31 subcommittee – school funding and tax relief – consists of

Senator Bob Story, Chair
Senator Jeff Essmann
Representative Galen Hollenbaugh
Representative Tim Furey
Representative Bob Lake
Senator Christine Kaufmann

The HB 488 subcommittee – Property Reappraisal – consists of

Senator Kim Gillan, Chair
Representative Mike Jopek
Senator Jim Elliott
Representative Jon Sonju
Representative Penny Morgan
Senator Jim Peterson

In addition, a working group to prepare reports for the committee and subcommittees has been formed which meets with Jeff Martin, staff to the RTIC, nearly every Monday morning. The working group consists of staff from the Office of Budget and Program Planning, Tax Policy and Research from the Department of Revenue, the Office of Public Instruction and the Legislative Fiscal Division.

Senate Joint Resolution 31 requests an examination of the viability of the use of property taxes to fund education, an examination of a statewide school equalization property tax district, and the use of a statewide sales tax to fund education. Specifically the study is to:

- (1)(a) examine future demographics of property taxpayers, school age children, retirees, and other factors relating to the viability of property taxes to fund education; and
- (b) examine the distribution or maldistribution of classes of taxable property in counties and school districts;
- (2) study the feasibility of a statewide school equalization district with property tax levies against particular classes of property and other sources of statewide revenue; and
- (3) study the use of a sales tax for funding to replace property taxes and provide tax relief for homes, commercial properties, and agricultural and forest lands possibly by increasing the state share of school district spending.

So far the RTIC has heard presentations on three issues:

Demographics: One of the reasons contained in SJR 31 for conducting the study is the changing demographic patterns in Montana. The study resolution noted:

- o Montana's population over the age of 65 will increase from 14% in 2007 to over 20% in 2019.
- o That aging demographic shows itself in the number of counties with more than 20% of their population over the age of 65 rising from 4 of 56 counties in 2000 to 45 of 56 counties in 2025.
- o During the same time period, the percentage of the state's population represented by children of elementary school attendance age will continue to decline.

On December 6, Larry Swanson, director, O'Connor Center for the Rocky Mountain West, presented demographic and economic trends related to this study. A link to his report is on the RTIC website.

Statewide school equalization district: A problematic provision contained in SB 554 (SB 544 was the sales tax bill by Senator Jeff Essmann during the 2007 legislative session) was the separation of classes of property for levying mills for school funding purposes. The bill would have eliminated current statewide school equalization levies for schools and would have created a statewide school equalization district the levy for which would have been imposed on all classes of property except agricultural land, residential and commercial land and improvements, and forest land. These three classes of property would have been subject only to local school levies. On December 7, Lee Heiman, staff attorney, present a legal analysis of creating separate property tax systems for school funding. Mr. Heiman concluded that it is a violation of equal protection provisions of the Montana Constitution to levy different mill levy rates on different classes of property within a jurisdiction. To do so would require a constitutional amendment.

School Funding Education – The Office of Public Instruction presented a report on the revenues available for schools under the current system of funding. The Tax Policy and Research office presented the revenue available for the state to fund K-12. The Legislative Fiscal Division

presented a report on the school funding models that have been built and that will be built to answer questions raised by the two subcommittees in their future work.

Future work by the SJR 31 subcommittee will examine the work done by the Quality School Interim Committee, what can be done in changing school funding with and without a alternative source of revenue (i.e. a sales tax).

House Bill 488 requests the RTIC examine the impact of reappraisal on state and local tax liabilities across the state, as well as an examination of various legislation that could be proposed to the legislature to mitigate the impacts of reappraisal on tax liability. The new reappraised property in class 4 (residential and commercial property), in class 3 (agricultural land) and in class 10 (timberland) will go into effect on January 1 2009 and will affect revenues at the state and local level beginning November 2009 (fiscal 2010). The HB 488 subcommittee will conduct this research. The DOR may have preliminary data available in late summer. In past reappraisals, preliminary data have only been available in mid-fall, and final data have sometimes not been available until after the legislature meets. The committee will study mitigation efforts in other states as well as previous mitigation efforts in Montana.